

CALIFORNIA STATE TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

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SUBJECT: General- 1999/00 Investment Branch Objectives

ITEM NUMBER: 4

ATTACHMENT(S): 2

ACTION: X

DATE OF MEETING: August 4, 1999

INFORMATION: \_\_\_\_\_

PRESENTER(S): Mr. Mitchell

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EXECUTIVE SUMMARY

One of the general objectives contained in the CalSTRS Investment Management Plan is to conduct an annual planning session. As part of the annual planning session, the proposed 1999/00 Investment Branch objectives were provided at the July Investment Committee meeting. Several modifications were made to the proposed objectives as directed by the Investment Committee. Attachment 1 provides the Investment Branch objectives in chronological order. Attachment 2 provides the Investment Branch objectives in operating unit order.

The 1999/00 Investment Branch objectives highlight: (1) implementation of program modifications as approved by the Investment Committee, (2) enhancement of the risk control process both for the individual and total investment portfolio basis, and (3) concentration on quality control for internally and externally managed programs.

Recommendation:

Staff recommends approval of Attachment 3, which formally adopts the Investment Branch objectives for the 1999/00 fiscal year.

**1999 – 00 INVESTMENT OBJECTIVES  
TIMELINE BY MONTH**

Attachment I  
Investment Committee – Item 4  
August 4, 1999

The objectives for the 1999 – 00 fiscal year have been divided into categories identified below by month.

<b>DIVISION</b>	<b>DESCRIPTION</b>	<b>MONTH</b>	<b>STATUS</b>
INTERNAL EQUITIES	Utilize additional crossing systems such as Optimark or Lattice concentrating on increasing liquidity and reducing market impact.	AUG 99	
EXTERNAL EQUITIES	Prepare, release, and evaluate Requests for Proposals for indexed domestic, international, and emerging market equities. The current contracts expire on January 31, 2000.	SEP 99	
GENERAL	Complete an asset allocation review including the adoption of strategic targets and ranges for the major asset categories.	SEP 99	
INVESTMENT OPERATIONS	Participate in the planning and implementation process as approved for new or modified investment programs to minimize the disruptions to existing functions, products, and programs.	SEP 99	
REAL ESTATE	Develop and present policy, procedures, and guidelines for the use of leverage in the moderate and high risk segments of the real estate portfolio.	SEP 99	
SECURITIES LENDING	Prepare, release, and evaluate a Request for Proposal for securities lending vendors. The current contracts expire on January 31, 2000.	SEP 99	
ALTERNATIVE INVESTMENTS	Explore the feasibility and potential benefit of diversification criteria including an allocation to first time funds.	OCT 99	
CORPORATE GOVERNANCE	In conjunction with the Chief Legal Counsel, develop a securities litigation policy including the review, evaluation, and initiation of class actions.	OCT 99	
CREDIT ENHANCEMENT	Explore, evaluate, and report on working with a consortium of large public pension plans to provide credit enhancements on a national basis.	OCT 99	
EXTERNAL EQUITIES	Explore, evaluate, and present a report on the appropriate method of selecting and/or approving allowable emerging market countries to be included in the active or passive emerging market portfolios.	OCT 99	

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<b>DIVISION</b>	<b>DESCRIPTION</b>	<b>MONTH</b>	<b>STATUS</b>
ALTERNATIVE INVESTMENTS	Explore the feasibility and potential benefit of inclusion of developed Pacific Basin countries (Australia, Hong Kong, Japan, New Zealand, and Singapore).	NOV 99	
CREDIT ENHANCEMENT	Explore, evaluate, and report on the viability of working with financial institutions to provide credit enhancement for securitized business loans for California companies.	NOV 99	
FIXED INCOME	Explore, evaluate, and present the inclusion of high yield (junk) bonds in the fixed income portfolio. Elements presented should include: (1) role of high yield bonds, (2) strategic or opportunistic in nature, (3) internal or external management, and (4) appropriate performance benchmark.	NOV 99	
GENERAL	Revise the Investment Management Plan to reflect the modifications (if any) in the strategic asset allocation, investment objectives, and investment structure.	NOV 99	
	Prepare, release, and evaluate a Request for Proposal for the master custodian. The current contract expires on March 30, 2000.	NOV 99	
REAL ESTATE	Create and present a program for single-family residential development concentrating on affordability issues.	NOV 99	
ALTERNATIVE INVESTMENTS	Explore the feasibility and potential benefits of investment in under-serviced areas of U.S. metro areas larger than one million.	JAN 00	
HOME LOAN	Report on the revitalization of the Home Loan Program highlighting the progress achieved in implementing the business plan approved in September 1998.	JAN 00	
	Explore additional program enhancements concentrating on affordability issues such as no down payment and no points/no fee loans.	JAN 00	
ALTERNATIVE INVESTMENT	Explore the feasibility and potential benefit of diversification criteria including an allocation to emerging technology venture funds.	FEB 00	

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<b>DIVISION</b>	<b>DESCRIPTION</b>	<b>MONTH</b>	<b>STATUS</b>
EXTERNAL EQUITIES	Report on the implementation results for the actively managed segment of the domestic equity portfolio comparing actual results to the projected figures contained in the October 1997 Investment Committee presentation.	FEB 00	
GENERAL	Explore, evaluate, and present a report regarding the traditional and non-traditional risk measurement and control alternatives.	FEB 00	
INTERNAL EQUITIES	Report on the progress achieved in implementing the internal equity management plan approved in May 1999.	FEB 00	
REAL ESTATE	Create and present a program for urban redevelopment projects in larger metro areas in the United States.	FEB 00	
CREDIT ENHANCEMENT	Design and develop a credit enhancement vehicle to be utilized in a multi-family housing program.	MAR 00	
GENERAL	Evaluate, and present a report concerning the usage of S&P 500 Index options as a method for controlling investment portfolio risk and modifying asset allocation.	MAR 00	
CURRENCY HEDGING	Evaluate the Currency Hedging Program in terms of the original objectives presented to the Investment Committee in July 1995. Include in the report a recommendation on the continued applicability of hedging currency concentrating on the risk control aspects.	APR 00	
	Utilize additional currency risk management strategies such as the use of currency options to increase the efficiency of the Currency Hedging Program.	APR 00	
EXTERNAL EQUITIES	Explore, evaluate and present a report on the viability of utilizing long/short domestic equity managers as a portion of the actively managed segment of the domestic equity portfolio.	APR 00	
INTERNAL EQUITIES	Report on the Cash Equitization Program identifying the results compared to March 1999 Investment Committee presentation.	APR 00	

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<b>DIVISION</b>	<b>DESCRIPTION</b>	<b>MONTH</b>	<b>STATUS</b>
INVESTMENT OPERATIONS	Evaluate enhancements to the real estate cash management program concentrating on the changes caused by the increase in geographic diversification and number of properties serviced.	APR 00	
REAL ESTATE	Create and present a program for multi-family development and rehabilitation.	APR 00	
CORPORATE GOVERNANCE	Evaluate the role of internal staff in implementing the business plan for international proxy voting and corporate actions.	MAY 00	
GENERAL	Review and revise the delegation of authority and authorized signers for the Investment Branch.	MAY 00	
INTERNAL EQUITIES	Explore, evaluate, and present a report on the viability of managing a portion of the passive international portfolio internally.	MAY 00	
ALTERNATIVE INVESTMENTS	Explore the feasibility and potential benefit of inclusion of emerging markets Latin American countries (Argentina, Brazil, Chile, Columbia, Mexico, and Venezuela).	JUN 00	
	Explore and evaluate the use of a merchant banking concept for co-investments or direct investments.	JUN 00	
EXTERNAL EQUITIES	Explore, evaluate and present a report on the viability of actively managed domestic equity portfolios with a corporate governance or management control overlay.	JUN 00	
INVESTMENT OPERATIONS	Utilize technology to enhance or improve the investment process such as Bloomberg direct link or PORTIA software.	JUN 00	
REAL ESTATE	Explore the viability of internal asset management for selected portions of the real estate portfolio such as the Pacific Northwest portfolio, California properties, or triple net leases.	JUN 00	
	Explore public real estate securities (REIT's) to determine the viability of including a public REIT component in the real estate portfolio.	JUN 00	

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<b>DIVISION</b>	<b>DESCRIPTION</b>	<b>MONTH</b>	<b>STATUS</b>
SECURITIES LENDING	Report on the progress achieved in implementing the securities lending business plan.	JUN 00	
SOFT DOLLAR	Report on implementation of the business plan concentrating on the progress of including the new domestic and international equity managers into the Program.	JUN 00	

## TIMELINE BY DIVISION

<b>DIVISION</b>	<b>DESCRIPTION</b>	<b>MONTH</b>	<b>STATUS</b>
REAL ESTATE	Develop and present policy, procedures, and guidelines for the use of leverage in the moderate and high risk segments of the real estate portfolio.		
	Explore the viability of internal asset management for selected portions of the real estate portfolio such as the Pacific Northwest portfolio, California properties, or triple net leases.		
	Create and present a program for multi-family development and rehabilitation.		
	Create and present a program for urban redevelopment projects in larger metro areas in the United States.		
	Create and present a program for single-family residential development concentrating on affordability issues.		
	Explore public real estate securities (REIT's) to determine the viability of including a public REIT component in the real estate portfolio.		
FIXED INCOME	Explore, evaluate, and present the inclusion of high yield (junk) bonds in the fixed income portfolio. Elements presented should include: (1) role of high yield bonds, (2) strategic or opportunistic in nature, (3) internal or external management, and (4) appropriate performance benchmark.		
CURRENCY HEDGING	Evaluate the Currency Hedging Program in terms of the original objectives presented to the Investment Committee in July 1995. Include in the report a recommendation on the continued applicability of hedging currency concentrating on the risk control aspects.		
	Utilize additional currency risk management strategies such as the use of currency options to increase the efficiency of the Currency Hedging Program.		

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<b>DIVISION</b>	<b>DESCRIPTION</b>	<b>MONTH</b>	<b>STATUS</b>
HOME LOAN	Report on the revitalization of the Home Loan Program highlighting the progress achieved in implementing the business plan approved in September 1998.		
	Explore additional program enhancements concentrating on affordability issues such as no down payment and no points/no fee loans.		
SECURITIES LENDING	Report on the progress achieved in implementing the securities lending business plan.		
	Prepare, release, and evaluate a Request for Proposal for securities lending vendors. The current contracts expire on January 31, 2000.		
GENERAL	Complete an asset allocation review including the adoption of strategic targets and ranges for the major asset categories.		
	Revise the Investment Management Plan to reflect the modifications (if any) in the strategic asset allocation, investment objectives, and investment structure.		
	Prepare, release, and evaluate a Request for Proposal for the master custodian. The current contract expires on March 30, 2000.		
	Explore, evaluate, and present a report regarding the traditional and non-traditional risk measurement and control alternatives.		
	Evaluate, and present a report concerning the usage of S&P 500 Index options as a method for controlling investment portfolio risk and modifying asset allocation.		
	Review and revise the delegation of authority and authorized signers for the Investment Branch.		



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<b>DIVISION</b>	<b>DESCRIPTION</b>	<b>MONTH</b>	<b>STATUS</b>
INTERNAL EQUITY	Report on the progress achieved in implementing the internal equity management plan approved in May 1999 .		
	Report on the Cash Equitization Program identifying the results compared to March 1999 Investment Committee presentation		
	Utilize additional crossing systems such as Optimark or Lattice concentrating on increasing liquidity and reducing market impact.		
	Explore, evaluate, and present a report on the viability of managing a portion of the passive international portfolio internally.		
INVESTMENT OPERATIONS	Participate in the planning and implementation process as approved for new or modified investment programs to minimize the disruptions to existing functions, products, and programs.		
	Utilize technology to enhance or improve the investment process such as Bloomberg direct link or PORTIA software		
	Evaluate enhancements to the real estate cash management program concentrating on the changes caused by the increase in geographic diversification and number of properties serviced.		
EXTERNAL EQUITIES	Prepare, release, and evaluate Requests for Proposals for indexed domestic, international, and emerging market equities. The current contracts expire on January 31, 2000.		
	Report on the implementation results for the actively managed segment of the domestic equity portfolio comparing actual results to the projected figures contained in the October 1997 Investment Committee presentation.		

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TIMELINE BY DIVISION

<b>DIVISION</b>	<b>DESCRIPTION</b>	<b>MONTH</b>	<b>STATUS</b>
EXTERNAL EQUITIES (Continued)	Explore, evaluate and present a report on the viability of utilizing long/short domestic equity managers as a portion of the actively managed segment of the domestic equity portfolio		
CORPORATE GOVERNANCE	Explore, evaluate, and present a report on the appropriate method of selecting and/or approving allowable emerging market countries to be included in the active or passive emerging market portfolios.		
	In conjunction with the Chief Legal Counsel, develop a securities litigation policy including the review, evaluation, and initiation of class actions.		
	Evaluate the role of internal staff in implementing the business plan for international proxy voting and corporate actions.		
	Explore, evaluate, and present a report on the viability of actively managed domestic equity portfolios with a corporate governance or management control overlay.		
ALTERNATIVE INVESTMENTS	Explore the feasibility and potential benefit of inclusion of developed Pacific Basin countries (Australia, Hong Kong, Japan, New Zealand, and Singapore).		
	Explore the feasibility and potential benefit of inclusion of emerging markets Latin American countries (Argentina, Brazil, Chile, Columbia, Mexico, and Venezuela).		
	Explore the feasibility and potential benefits of investment in under-served areas of U.S. metro areas larger than one million.		
	Explore the feasibility and potential benefit of diversification criteria including an allocation to first time funds.		
	Explore the feasibility and potential benefit of diversification criteria including an allocation to emerging technology venture funds		
	Explore and evaluate the use of a merchant banking concept for co-investments or direct investments.		

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<b>DIVISION</b>	<b>DESCRIPTION</b>	<b>MONTH</b>	<b>STATUS</b>
CREDIT ENHANCEMENT	Explore, evaluate, and report on working with a consortium of large public pension plans to provide credit enhancements on a national basis.		
	Design and develop a credit enhancement vehicle to be utilized in a multi-family housing program.		
	Explore, evaluate, and report on the viability of working with financial institutions to provide credit enhancement for securitized business loans for California companies.		
SOFT DOLLAR	Report on implementation of the business plan concentrating on the progress of including the new domestic and international equity managers into the Program.		

PROPOSED  
RESOLUTION OF THE  
CALIFORNIA STATE TEACHERS' RETIREMENT BOARD  
INVESTMENT COMMITTEE

Subject: 1999/00 Investment Branch Objectives

Resolution No. \_\_\_\_\_

WHEREAS, the Investment Committee of the Teachers' Retirement Board is responsible for recommending to the Board investment policy and overall investment strategy; and

WHEREAS, the Investment Committee has received and reviewed the 1999/00 Investment Branch Objectives and heard oral presentations from Staff; and

WHEREAS, Staff has recommended adoption of the 1999/00 Investment Branch Objectives; Therefore be it

RESOLVED, that the Investment Committee of the Teachers' Retirement Board approves the 1999/00 Investment Branch Objectives.

Adopted by:  
Investment Committee

on \_\_\_\_\_

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James D. Mosman  
Chief Executive Officer